

Study finds more efficiency in competitive markets

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Katherine Ling

Costs of labor, technology and other non-fuel items for utilities in competitive markets are 3 to 5 percent lower than those of their regulated counterparts for the same power output, according to a new study by three independent economists. And gains for generation in labor and non-fuel expenses were 6 to 12 percent greater when compared to those at government- and cooperatively owned plants, according to the study published in the September issue of American Economic Review. The study was co-authored by Catherine Wolfram of the University of California, Berkeley; Kira Fabrizio of Emory University and Nancy Rose of the Massachusetts Institute of Technology.

COMPETE, a coalition that represents 174 electricity stakeholders and supports competitive electricity markets, presented the study and Wolfram at an event in Washington today.

The efficiencies added up to savings of about \$1 billion per year after divestitures, Wolfram said. If applied to thermoelectric generation nationwide, it could lead to \$4 billion in savings and helps achieve reductions in carbon emissions through fuel efficiency, she highlighted.

But Tyson Slocum, director of the energy program at Public Citizen, said plant efficiency is good only if those savings are passed on to the consumer. "You can have all sorts of gains in physical operation of plant," he said in an interview. "But as long as you have a dysfunctional market lacking adequate competition those efficiency gains aren't going to be realized in the forms of lower prices to consumers" only in the pockets of the power companies.

Acknowledging that there are inherent inefficiencies in a regulated market, Slocum said, "Whatever efficiencies are gained through restructured markets are lost through massive inefficiencies of the market place."

The study focused on electricity generation as an example of how markets may improve not only allocation efficiency but also may promote technological efficiency. Markets were able to achieve greater levels of efficiency than incentive policies, price caps, rate freezes, and revenue-decoupling programs -- all regulatory schemes attempted throughout the 1990s -- the study reported.

Specifically, the study found power plants in competitive markets might bring a greater level of efficiency through fuel procurement choices, fuel mix, preventative maintenance and improved coordination to prevent transmission congestion costs and failures. But echoing Slocum's point, the conclusion of the article noted, "It is important to recognize that these efficiency estimates are, however, only one input in judging the ultimate benefit of restructuring policies."